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SUBJECT: TAIWAN'S IMPENDING HEALTH CARE CRISES

1. (SBU) Summary: The Taiwan Health care system is facing a number of crises. The National Health Insurance system is teetering on the edge of bankruptcy. The Department of Health faces low morale, an inflexible and conservative bureaucracy, a shortage of strong leadership, and an exodus of the few good leaders it does have, including the Minister of Health and the CEO of the Bureau of National Health Insurance (BNHI). While the public is slowly becoming more aware of fiscal threats to the health care system, the political will necessary to push through reforms is non-existent. The fiscal crisis at BNHI could be delayed by an infusion of government support, but the lack of political will to raise premiums and shortage of leadership at DOH portend a difficult period ahead. End Summary.

Health Finances Shaky

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2. (U) Taiwan's Bureau of National Health Insurance (BNHI) faces a severe fiscal crisis in the coming weeks. According to experts, at current premium levels it is estimated that BNHI will run an average deficit of almost NT\$23 billion (US\$675 million) every year for the next five years. The BNHI reserve fund, designed to cover short term fiscal gaps, reportedly will be exhausted by the end of 2004. The NHI premium income (not the premium rate) increases by only four percent per year, while expenses are increasing by six percent each year. In the months before legislative elections, no party was willing to consider the need for NHI premium and co-pay increases. The Legislative Yuan is scheduled to consider the BNHI budget December 23. Premier Yu has publicly stated that there will be no increase in the NHI premium rate during his tenure. However, there is speculation that he will be replaced when the new legislature is seated in February.

3. (SBU) Beginning in 2002, BNHI and the Department of Health tried to address the fiscal shortfall by instituting in phases a "global budgeting" system. Under this system, hospitals are authorized a fixed amount of financial support by BNHI based on their quality of service and number of patients seen during a representative period (previous 1-3 months). This was supposed to increase hospital efficiency and help BNHI stay afloat. But global budgeting has not been able to stem the flow of cash from BNHI and has led to protests from doctors at small and medium sized clinics that they are being squeezed out of existence. Big hospitals also complain that they are losing money at an unsustainable rate.

4. (U) Recently published figures from central Taiwan hospitals show that total NHI claims by these hospitals from July to September 2004 exceeded the global budget allocation by almost 16 percent or NT\$2.1 billion (US\$64 million). Local press reports that losses in the first three quarters of 2004 at one large hospital were over NT\$340 million (over US\$10 million). Another medical center in central Taiwan reported losing NT\$100 million (over US\$3 million) in the third quarter. Hospital administrators report CT and MRI scans have decreased by 20 percent since 2003, presumably in an effort to cut costs. Hospital purchase orders have been canceled and expansion plans put on hold. The press reported in July that some hospitals were turning patients away for financial reasons. DOH later confirmed these reports to AIT but insisted that the hospitals involved had been reprimanded and the situation would not be repeated. Pharmaceutical companies report a drastic decline in sales volume since July as hospitals restrict access to more costly drugs or switch to cheaper generic products. This has increased the already heavy pressure on research pharmaceutical companies to cut prices. The hospitals then use the difference between the actual and BNHI reimbursement price (the "black hole") to fund other operations.

Government Response Lacking Urgency

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5. (U) The government, while acknowledging the problems, has not yet taken steps to address them. Instead, it is encouraging patients to change their health care habits by utilizing community clinics and general practitioners for

their primary care needs, freeing hospitals to concentrate on more serious needs. However, BNHI is not reimbursing these clinics at a level commensurate with their costs. According to the head of the Taiwan Community Hospitals Association, while small clinics account for 80 percent of all medical organizations in Taiwan, they receive only 20 percent of BNHI reimbursements. Small hospitals and clinics are currently being reimbursed by BNHI at an average rate of less than 50 percent, far below their larger counterparts. One hospital administrator from Taidong reported to AIT that his hospital had been reimbursed at only 17 percent of claims from July to September 2004.

#### Rolls-Royce Service at a Yugo Price =====

16. (U) The fiscal problems of the National Health Insurance are exacerbated by the inability of the Department of Health to push forward solutions that would be politically unpopular. According to BNHI, Taiwan currently spends only six percent of GDP on health care, less than most OECD countries (according to OECD statistics, the US spends about 12 percent of GDP on health care costs). Yet the level of service covered by NHI is high, including not just doctor visits but also tests, surgery, and pharmaceuticals for the price of a small co-payment. Anecdotal reports suggest that many Taiwan migrants maintain their Taiwan citizenship specifically so they can return to take advantage of the health care benefits in their old age. The solution to the fiscal crisis must include some increase in premium and or co-payments and a revision of the global budget system to include some stop loss mechanism for health care providers. The problem is not that Taiwan is spending too much on health care, rather that patients are paying too little.

#### Fleeing a Sinking Ship? =====

17. (U) The Department of Health is facing a leadership vacuum. Minister of Health Chen Chien-jen was appointed during the SARS crisis in 2003, and while a popular and capable administrator, has not pushed for urgently needed policy reforms in pricing, validation, and data protection for innovative pharmaceuticals. Chen has announced he plans to return to Taiwan University after the upcoming Legislative Yuan elections. Although he recently has been relatively outspoken about NHI's precarious fiscal position, his lame duck status makes it difficult for Chen to do more than use the bully pulpit of his office to warn of the impending crisis. He has announced plans to convene public meetings to discuss the future of NHI. Chen's replacement will be the fourth Minister of Health in four years.

18. (SBU) The recent resignation of Deputy Minister of Health and CEO of BNHI Chang Hong-jen is another blow to a ministry that can ill-afford to lose capable administrators. Chang led BNHI for almost 4 years and gained a reputation as the "Teflon administrator" for cutting BNHI's administrative costs to just 2 percent of operating expenses and for forcing through price hikes in premiums and co-payments in 2002. His resignation in October, in response to protests by more than 1000 doctors and small hospital administrators over the implementation of global budgeting, surprised most observers. Chang told AIT November 22 he had been seeking to step down for several months in order to allow a new CEO to take the reins at BNHI. After repeated urging by the Minister of Health and President Chen he agreed to temporarily take on the additional role of deputy Minister of Health in June 2004. However, he was growing increasingly concerned that he would not be allowed to leave and took the protests as his opportunity to step down to pursue a fellowship at a U.S. university. Chang's colleagues suggest he stepped down in order to better position himself for a more senior role later.

19. (SBU) The Director of the Bureau of Pharmaceutical Affairs (BOPA) Wang Hui-po also submitted her resignation in August, but she agreed to stay on until a replacement can be found. Wang told AIT she "could no longer in good conscience remain in (her) position when the leadership of DOH was more concerned with finances and protecting international companies than with the welfare of the Taiwan public." She cited in particular the pressure from foreign pharmaceutical companies for changes in Taiwan's validation procedures and establishment of data exclusivity provisions. However, DOH has been unable to find a successor and Wang is still in place. Her future status is uncertain. Wang has not been helpful to efforts to bring Taiwan into compliance with WTO commitments on pharmaceutical data protection and has been a major obstacle in efforts to simplify pharmaceutical manufacturing validation procedures. However, the medical device industry credits her for quickly resolving their concerns about re-registration of imports. The position of BOPA Deputy has been unfilled for several months.

#### Comment: Doctor's Don't Make Great Managers =====

10. (U) Many DOH bureaucrats are reportedly drawn from the ranks of medical doctors. Their expertise is in medical practices and procedures, not management, and they are often unwilling to listen to differences of opinion or explain decisions. The result is a particularly inflexible bureaucracy that issues edicts with little consultation or explanation and is then forced to reluctantly backtrack when crises spiral out of control. The initial mishandling of the SARS crisis in 2003 led to some improvements in the Ministry's procedures and readiness to control pandemic disease, but the rapid spread of the disease at the beginning stages was a direct result of DOH's bureaucratic inability to coordinate a sound response. Irrational medical device registration requirements, announced at the end of 2003 and then modified after pressure from industry and the US government, is another example of the DOH announcing a policy change without sufficient consultation or forethought. The 2002 announcement of serious changes in regulations for pharmaceutical registration, done without consultation with industry, and the subsequent difficulties in reaching an acceptable agreement on registration and inspection requirements is yet another example.

11. (U) The regular turnover of Ministers, the resignation of those officials who have demonstrated some leadership, and the inflexibility of the DOH bureaucracy have combined to make the DOH unwilling or unable to address many of the serious shortcomings of Taiwan's public health care system and make working with DOH a challenge. Long hours, low wages, heavy workloads, recurring health crises, and political pressures affect the staff morale and make it difficult to recruit and retain capable professionals.

12. (SBU) Taiwan's impending health insurance crisis has been obvious to health care administrators for some time. DOH raised the issue in 2003 but met a brick wall in the LY. Given the increasingly sour post-election partisan environment, chances for the LY to agree on future needed premium hikes are low. Efforts to implement global budgeting are acknowledged by former BNHI CEO Chang Hong-jen as a stop-gap cost-cutting measure that could only really be effective if Taiwan's health care costs had already stabilized. Global budgeting may have bought BNHI a few months, but is not a solution. A government bailout could prevent BNHI's fiscal collapse in the short term, but the structural shortcomings of the health care system will remain. With the departure of Minister Chen and CEO/Deputy Minister Chang, the DOH and BNHI lack the leadership necessary to lead the push for solutions and the inflexible culture and low morale of the DOH will make reforms even more difficult. Chang agreed that the bankruptcy and closure of several hospitals may be necessary before there is political will to address the root causes of this crisis.

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